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Research Report

THE NEW AIR FORCE STOCK FUND:

ITS IMPACT AND APPLICATION

FOR COMMANDERS

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LIEUTENANT COLONEL, USAF

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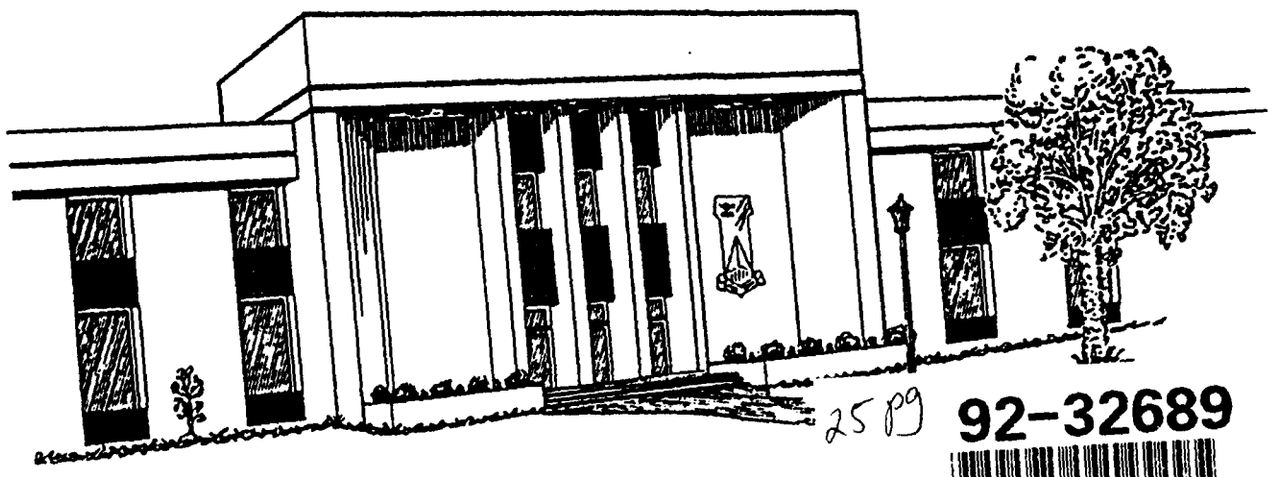

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THE NEW AIR FORCE STOCK FUND: ITS IMPACT AND APPLICATION FOR COMMANDERS

by

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ABSTRACT

TITLE: The New Air Force Stock Fund: Its Impact and Application for Commanders

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In the past, commanders have relied on the chief of supply and the accounting and finance officer to manage the Air Force Stock Fund and have for the most part not gotten deeply involved in the management process. That methodology worked well because no one knew better how to determine requirements and how to fund those requirements than supply and accounting and finance.

Since its inception in the late sixties, the Air Force Stock Fund required the bases to budget for and manage funds to support only non-weapon system assets, such as office equipment, administrative supplies, and local purchase items. Weapon system spares were budgeted for and funded by Air Force Logistics Command, and bases had little or no concern about cost of those spares, stock levels on hand, or reparability at base level.

When the new stock fund policy fully takes effect in FY 93, wing commanders will budget and fund for all assets used by a particular base, whether they are for base support or weapon system support. Commanders will have to consider maintenance effectiveness and capability in deciding whether to fix or buy new high-dollar spares. He or she may have to make tough decisionsand balance those decisions between

alternatives such as repairing the child care center or the child care center or buying more spares for aging aircraft.

This paper will examine the impact of the new changes to the stock fund for commanders and provide some practical guidance and advice in implementing the new procedures at base level.

BIOGRAPHICAL SKETCH

Lt Col John V. Bauman (BS, Saint Louis University; MS, University of Southern California; MA, Webster University), is a student at Air War College. He is a career supply officer. He has commanded two supply squadrons and has served in many logistics positions from base through major command levels. He was also an exchange officer with the Canadian Forces in Toronto, Ontario. He is a graduate of Squadron Officer School, Air Command and Staff College, and the National Security Management Course.

This article is to familiarize wing commanders and operations and logistics group commanders with the impact of the new base level stock fund concept. The concept and its implementation will require a thorough working knowledge for commanders to make sound financial decisions affecting the entire operation of a wing. The new stock fund is vastly different from the previous wing financial concept and will require direct, continuous commander involvement in the financial decisions affecting base support and the operational mission. In some cases, for example, given a limited amount of fiscal resources, commanders may have to make tough decisions between flying airplanes or repairing the child care center.

The concepts contained herein are explained for the absolutely uninitiated and are designed to provide a basis for an understanding of the stock fund and its impact on base management. It does not provide an indepth study of procedures or processes and makes no attempt to define or assess fiscal savings resulting from this new concept. More importantly, this paper should only reinforce the need for commanders to be fully immersed in the stock fund decision-making process. Additionally, the concept and its workings will remain so fluid over the next few years that commanders must be attuned to those changes and perhaps even play a big part in that change or improvement process.

WHAT IS A STOCK FUND?

In conceptualizing how the new stock fund procedures will operate and how to make it work best at base level, it is best to begin with an explanation of the stock fund concept itself. A stock fund is a revolving or working capital fund used to buy stocks of supplies and equipment. Those stocks may be such items as writing paper, plumbing supplies, or typewriters. When these items are issued by base supply to a customer, the customer pays for these assets with Operations and Maintenance (O&M) money. The amount of money the customer paid for the assets is returned to the stock fund, enabling base supply to buy more stock as requirements dictate. The stock fund is known as a revolving fund because initial Department of Defense appropriations capitalize the fund, inventory is purchased with that capital, customers buy inventory with O&M funds, and the O&M funds replenish the stock fund in a continuous, regenerative process. See Figure 1.

STOCK FUND REVOLVING CONCEPT

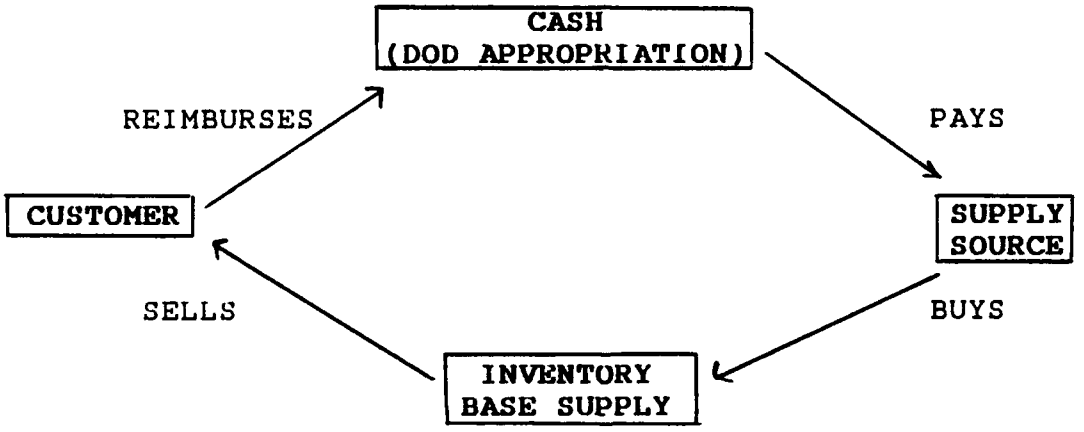

FIGURE 1

The Department of Defense maintains five stock funds: the Air Force, Army, Navy, Marine Corps, and Defense stock funds. The Air Force Stock Fund is managed by Air Force Materiel Command (AFMC). Within the Air Force Stock Fund are seven divisions, five of which are related to business at most bases. Three divisions that have the most impact on base level commanders and financial managers are the General Support Division (GSD), the Systems Support Division (SSD), and the Reparable Support Division (RSD). The GSD encompasses expendable supplies and locally procured equipment costing less than $15,000. The SSD handles expendable and base stocked and reparable weapon system assets. The RSD, newest and most significant of the divisions at base level, manages major and sub-assembly weapon system spares. These assets, previously procured and completely funded and maintained by AFMC as a part of the SSD, will now be purchased from AFMC and stocked at either depot level or base level with base O&M funds.

Conceptually, the Air Force Stock Fund revolving process was designed along business lines to break even, not to make a profit. As such, it should be self-sustaining and operate on a self-replenishment basis without additional Defense appropriations to keep it solvent. A way to help that continuous replenishment has been the stock fund surcharge. Over the years, this has been a variable percentage markup to the standard price of an asset to

offset transportation, personnel expenses, inflation adjustments, obsolescence, maintenance, and other operating expenses. The surcharge system will continue to bring stability to the stock fund system and help it to sustain itself.

An important aspect of the stock fund, since it is a revolving fund, is that it stands separate from the yearly Congressional appropriation cycle. By financing assets until they are issued from stock, the stock fund allows the expense to be charged to O&M funds in the proper year and at the place where the expense was incurred. Because stock fund managers buy inventory based on actual and anticipated sales, there is greater flexibility in funding inventory levels and managing procurement lead times to keep a steady supply of assets always available to the user.

A corollary to an understanding of the stock fund concept is the repair cycle concept. This is also referred to as the DIFM, or Due-In From Maintenance concept. When an asset of relatively high value and complexity is removed in inoperative condition from a weapon system, it is normally sent to a maintenance shop for repair. In turn, a serviceable asset of the same type is ordered from base supply stocks. When the serviceable asset is issued from supply, the supply computer generates a notice to maintenance, documenting the fact that an asset is due-in from maintenance after it has been repaired. Until returned

to supply in a serviceable condition, the computer produces a daily report to remind maintenance of the asset owed to supply. When supply receives the serviceable asset from maintenance, the computer notation is cancelled (the credit cancelled out the issue). There are many other variations and asset routing alternatives which may occur in the DIFM process, but their complexity goes beyond the scope of this article. Figure 2 shows a simple repair cycle asset flow.

REPAIR CYCLE ASSET FLOW

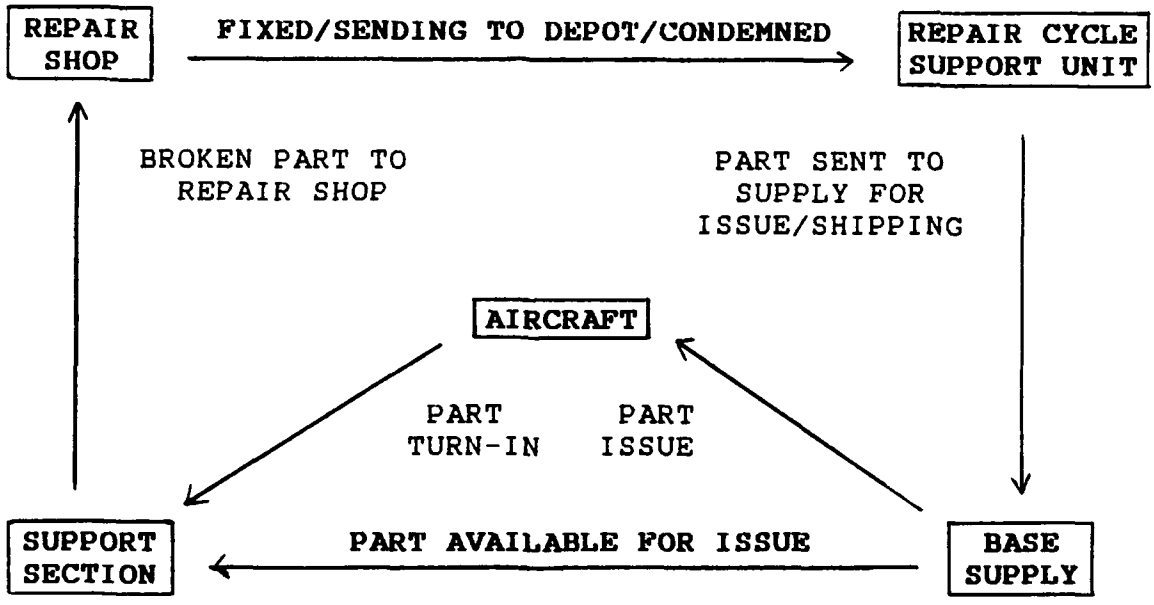

FIGURE 2

THE OLD STOCK FUND

The old stock fund operated essentially as described earlier with the exception of the Reparable Support Division. The revolving fund concept was at the heart of stock fund operations in the Air Force for nearly 40 years. Major air commands received a portion of Air Force stock funding authority from the Air Force Logistics Command, based on past spending and anticipated future demands and mission changes. The commands in turn apportioned its funding authority to the bases, where the buying for stock and selling to satisfy requirements was actually taking place. In the past, only two divisions of the Air Force Stock Fund impacted the base and only one had much of a funding influence. The General Support Division accounted for about three-fourths of a base's O&M expenditures and reimbursement to the GSD was for sales of all base support stocks--pencils, light bulbs, chairs, and lawn mowers, for example. No weapon system-related assets were included in this division, nor will they be in the new concept. The Systems Support Division accounted for the other one-fourth of a base's O&M expenses and included sales of weapon system related spares which were mostly DOD procured but funded at base level and stocked, sold and maintained at base level. SSD items typically include low cost reparable weapon system spares and some expendable bits and pieces which are weapon

system related. This division will also maintain its own past inventory parameters under the new stock fund concept.

Under the old system, the base did not budget for, maintain, stock, pay for or manage what was ultimately one of its greatest expenses to the Air Force: centrally procured, depot managed and maintained, high value weapon system spares. Although a base consumed those big dollar spares, Air Force Logistics Command (AFLC) retained the visibility and management of procurement, costing, stock levels, excess inventories, and time in the depot repair cycle. Very little, if any, management of these assets took place between AFLC and its customer bases. The bases were essentially unconcerned about the acquisition cost of AFLC spares, maintenance costs, condemnation rates, or repair cycle times as long as they received a serviceable spare when they needed it. AFLC, on the other hand, bore all the costs from acquisition to condemnation with little coordination except at major command level on some costs and trends.

TURNING THE CORNER

In managing both an effective stock fund and a responsive, applicable supply of inventory, managers at all levels want to get the right part, to the right place, at the right time, and <u>at the right cost</u>. In a business approach, that can only be done by having control and visibility over <u>all</u> that a business (a base) is responsible

for, and by providing incentives or identification of costs which affect business decisions. Order sizing, processing, mode of shipment, size of shipping containers, cost to hold, repair times, and acquisition costs all play a role in those decisions. Obviously not all factors considered and decisions made will be quantitative, even in the inventory and maintenance management business. But having the most visibility and maximum coordination among supply, maintenance and financial managers in the process will provide commanders with the greatest chance of financial and operational success.

THE DEFENSE MANAGEMENT REVIEW PROCESS

The time was ripe in the mid-eighties to identify and develop solutions to bureaucratic obstacles and expensive processes of government which could be better managed. In July 1985, President Ronald Reagan selected Deputy Secretary of Defense David Packard to be the Chairman of a Blue Ribbon Commission on Defense Management. The Commission was chartered to study ways to reduce the burdens of regulation, reporting and oversight that encumbered government and industry personnel trying to accomplish the mission of national defense. From this evolved an extensive Defense Management Review (DMR), which held as its goals a saving of $30 billion between FY 91 and FY 95, and by FY 97 a total of $70 billion, with corresponding reductions of 50,000 civilian and 44,000 military positions. The major

focus was to reduce the cost of support infrastructure without diminishing readiness.

Dick Cheney, Secretary of Defense, required each of the services to provide detailed plans for implementing the Packard Commission's recommendations by 1 October 1989. As a result, the Air Force submitted a report defining its approach to the DMR process: find smarter, streamlined, more effective ways of doing business, and give emphasis to internal improvements, efficiencies, and savings across the Air Force. DOD Comptroller analysts researched many proposals then to decide which ones could be potential Defense Management Review Decisions (DMRD's). The research and scoping papers included the issue, background, research strategy, and potential size of savings.

DMRD 904

The DMRD 904 initiative changes the entire focus of management of depot level reparables. A fundamental tenet of DMRD 904 was that DOD assumed a 10 percent saving as a result of its implementation, and took that corresponding aamount away fromt he Air Force prior to allocating funds for weapon system support. It is the substance of this DMRD which radically changes the base level stock fund concept. The concept causes the Air Force to change the way in which AFMC high cost reparable spares are funded and bought at base and depot level. It will also cause the user at base level to look at the costs involved with buying, stocking,

and maintaining those spares and to make direct mission and base support decisions based on those costs. The cost of operating a wing will be the central focus for commanders rather than just weapon system needs alone. Based on the implementation process of DMRD 904, the entire stock funding concept at base level has changed.

The effect of Depot Level Reparables (DLR) stock funding at base level is that almost all Air Force logistics costs will be decentralized to operational units. Wing commanders will have an expanded role in the decisions to buy, stock, repair, send away for repair, or condemn assets as situations dictate. With that expandable role comes a three to five-fold increase to wing O&M budget levels. Maintenance organizations will be allocated most of that increase because maintenance consumes most DLRs and must repair, send to repair, or condemn reparable assets.

There are four major reasons to place depot level reparables into base level stock funding. First, decentralization from AFMC provides visibility and management of high value assets at the user level. Second, the concept provides greater incentive in repair decision-making. With AFMC approval, a base may acquire its own organic resources to repair an asset rather than send it to depot repair, thus saving considerable repair costs. Third, it can improve the efficiency of base repairs, time in the repair cycle awaiting parts, awaiting maintenance, and

handling, which all tie up dollars in the maintenance, ordering, and handling process. A typical base with a wing of aircraft may have more than a million dollars worth of assets per day tied up somewhere in the repair cycle process. Lastly, the base DLR system will provide a more accurate accounting of assets and weapon system operating costs across the Air Force spectrum. If a base loses a high cost asset, it pays for it. Also, major commands will be able to compare which bases provided the best operational support for the least cost.

THE NEW STOCK FUND CONCEPT

Essentially, the new stock fund concept remains the same as the old one, but one change makes it vastly different in size, scope, and emphasis: the funding and management of depot level reparables at base level. Rather than free issued to bases by the AFMC depots, all issues will be at the cost of the unit's O&M dollars. Commanders and other resource managers will quickly learn that asset accountability and accurate, timely financial decisions are central to making the concept work.

While accountability and decision-making at the commander level are important to the new stock fund, the real key to stock fund solvency and operation is sales. Sale, or turnover, of inventory is the only means of collecting cash to pay expenses and to buy more inventory for the future. Sales drive inventory levels through a

computerized releveling process. Also, if inventory sits on the shelf and does not sell, buying power is reduced for other assets that may be needed. Only active, saleable items should be purchased for stock, based on past usage or a justified real need for the future. Sales drive that revolving fund process as described earlier. The point of sale is at the retail (base) level. AFMC depots buy DLR items at the wholesale level and transfer them to the retail level where base supply sells them to customers. The entire DLR stock funding and accounting process will be handled by a business pricing and costing approach. Basically, a dual pricing system will record costs, and consists of a standard price and a "carcass" price. The standard price applies to serviceable assets and the carcass price to unserviceable assets.

The standard price is based on the Forecast Acquisition Cost (FAC) plus surcharges. Supply sells an asset to a customer at the standard price and diminishes the customer's O&M account by the standard price. The carcass price is also based on the FAC. The carcass price is the FAC minus depot repair costs. When an unserviceable asset is bought from base supply, the carcass price will be charged to the customer's O&M account. Examples follow in Figure 3.

DLR PRICING SYSTEM

	Forecast Acquisition Cost	$1,000		
+	Surcharge	200		
	Standard Price	$1,200		
	Standard Price	$1,200	Standard Price	$1,200
-	Depot Repair Cost	100	- Carcass Price	900
-	Surcharges	200	OR	
	Carcass Price	$ 900	*Exchange Price	$ 300

* The exchange price is what the Air Force customer would pay the stock fund for a serviceable DLR, and assumes that the customer will return either a carcass or a fully repaired DLR to supply for credit to the stock fund.

FIGURE 3

Here is how the pricing system works for the more common DLR transactions. When a serviceable DLR asset is needed, it is issued from supply at the standard price. When the unserviceable asset is removed from the weapon system and fixed by maintenance, it is then turned in to supply and credited by supply at the standard price. Other than perhaps bits and pieces to repair the item, the cost to the customer (maintenance) was nothing. If the DLR requires depot maintenance, it is sent to an air logistics center for repair. When the unserviceable asset is turned in to supply, it is credited to the customer at the carcass price. When the asset is returned in serviceable condition from an air logistics center, the net cost to the customer is the exchange price, or $300 from the example in Figure 3.

COMMANDER INVOLVEMENT

Commanders and base financial managers must actively participate in the DLR management and decision process. Among the things commanders and managers must be involved with are:

- Improving on equipment troubleshooting to avoid the costly repair cycle and handling process.
- Repairing more at base level to keep O&M dollars in the base budget account. Sending assets off base means depot repair costs plus surcharges.
- Emphasizing faster turnaround times through the base repair cycle. The longer an asset is in the repair

cycle, the longer O&M dollars are tied up. Managers may want to develop a measurement system for the repair cycle to examine processing time and repair time. Commanders and financial managers may also want to ask for more frequent repair cycle updates than are provided in the current system.

- Reviewing inventory to prevent its unnecessary growth and stagnation. Inventory excess is the greatest problem in the revolving fund concept and greatly inhibits stock fund reimbursement to buy needed stock.
- Ordering only for actual requirements. Find out what the customer needs and buy only that. "White elephants" will stay on the shelf forever.
- Projecting accurate requirements for customer needs. This also means ordering sufficiently far enough in advance to compensate for procurement lead time and shipping time.
- Establishing decision authority levels based on dollar value of assets, system history, critical maintenance events, or system safety.

SUMMARY

The new base level stock fund concept will fundamentally change the way a base does its business. Its design focuses on the cost of doing business and will require tradeoffs in a limited resource environment. The concept emphasizes commander involvement in buying the right

item at the right time at the right cost. That right cost concentrates on reducing expenditures for doing business--doing business as inexpensively as possible. Finally, the new concept provides financial incentives at base level to reduce total flying hour costs by repairing more at base level, moving assets more quickly through the repair cycle, and reducing demands on the supply system to the greatest extent possible. Since its inception, the new DLR stock funding concept has been dynamic in its impact and in the processes which guide its implementation. That dynamism is certain to continue as the Air Force gains experience in administering the concept. Commanders will play a vital role in making the stock fund work at base level and in saving increasingly precious weapon system dollars throughout the Air Force.

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